



Of Interest *In Kentucky*

Quarterly Newsletter of the Office of Financial Institutions

Issue No. 4, Winter 2007

"The mission of the Office of Financial Institutions is to serve the public through effective and efficient regulation that promotes consumer confidence and economic growth."

Assembly of bills:

Mortgage bill tops OFI's list of legislation to watch this session

The 2008 Regular Session of the Kentucky General Assembly is now in full swing, and the Office of Financial Institutions (OFI) is keeping an eye on several bills that may affect the financial services industry.

At the top of OFI's bill watch list is the mortgage bill drafted by OFI in conjunction with the industry and consumer groups. House Bill 552 passed out of the House on Feb. 29 and now proceeds to the Senate.

HB 552 will expand and clarify mortgage terminology and the scope of OFI's jurisdiction. The bill generally focuses on three areas: consumer protection, industry regulation and enforcement.

Many of the sections and points in the bill are technical in nature, but the following is a summary of the bill's highlights.

In the interest of consumer protection, HB 552 reduces the amount of possible prepayment penalties, and it prohibits prepayment penalties on refinancing with the original mortgage loan company. Currently the maximum prepayment penalty is 5 percent for the first five years. The bill lowers the maximum to 3 percent the first year, 2 percent the second year and 1 percent the third year. Prepayment penalties are also prohibited within 60 days prior to the date of the first interest rate reset.

Continued on Page 3 ...



Cordell Lawrence

Improving mortgages

We at OFI are keeping a close watch on the situation surrounding mortgages and foreclosures in Kentucky. Recent headlines about the "mortgage meltdown" and the "subprime crisis" are disturbing, as is the rise in foreclosure actions and bankruptcies.

Of Kentucky's more than 441,000 serviced loans, 6.23 percent are past due and 2.13 percent are in foreclosure as of Sept. 30, 2007, according to a survey by the Mortgage Bankers Association. Of those loans, 53,792 are subprime. More than 16 percent of the subprime loans are past due and 8.35 percent are in foreclosure.

OFI has drafted a bill to address these issues. House Bill 552, sponsored by House Banking & Insurance Chairman Tommy Thompson, addresses concerns in three areas: consumer protection, industry regulation and enforcement. In short, we're hoping to improve the laws covering lending in Kentucky and to develop more tools to fight fraud and predatory lending.

We actively support the General Assembly's actions to swiftly and decisively to protect Kentucky citizens and to ensure compliance with the law. We'll be watching closely the progress of HB 552.

Senior Scam Jam events benefit the public

OFI's partnership with AARP Kentucky in the Campaign for Wise and Safe Investing culminates this year in four free events for senior citizens across Kentucky. Each

**Senior
Scam
Jam**

"Senior Scam Jam" event will show the many forms fraud can take and how knowledge can be your best defense.

The first Senior Scam Jam, held in Louisville on Sept. 12,

2007, attracted more than 130 seniors from the region who found the program to be helpful. "We're all vulnerable – even when we think we're not!"

Continued on Page 2 ...

New service from the IRS

Submitted by the IRS

In October 2006, the Internal Revenue Service (IRS) began the Income Verification Express Service (IVES) program, offering electronic delivery of IRS transcripts and records available upon submission of IRS Form 4506-T, Request for Transcript of Tax Return.

The IVES program is used by mortgage lenders and others within the financial community to confirm the income of a borrower when processing a loan application.

The new service automates the delivery portion of the process. With IVES, the IRS provides return transcript information generally within two business days to a third party with the consent of the taxpayer. This service replaced the previous process that required manual pick-up and delivery of transcripts from the seven IRS Return and Income Verification Services (RAIVS) units across the country.

Customers must now log on to IRS.gov to retrieve their requested transcripts from a secure mailbox located on the e-Services electronic platform. Customers will still need to fax the signed Form 4506-T to the one of the three designated RAIVS units.

For details on participation in the IVES program and submission of requests, including fees and payments, please refer to www.irs.gov (keyword IVES).



Captain Walter Shackelford receives a Kentucky Colonel certificate from his coworkers at OFI as Executive Director Cordell Lawrence looks on.

Examiner goes to Afghanistan

Captain Walter Shackelford became a colonel on Jan. 16 as his friends and coworkers presented him with an official Kentucky Colonel certificate and other gifts at a luncheon in his honor.

Walter is an officer in the Kentucky Army National Guard, and he's also an examiner in OFI's Compliance Branch. His military unit has been mobilized for a year to go to Afghanistan. His mission: Train the Afghan army to help it become a successful military.

"You never know what the future holds," Walter said. "All I know is I've got a lot of good friends, and people that I care about and who care about me."

OFI's staff gathered to show support and wish him luck. Walter received the Kentucky Colonel certificate and other gifts – two books, pocket prayer hands and a gift card for a video camera for his computer, so he can see his family while he's away. He and his wife, Juanita, have two daughters, Isis Alexis, 8, and Iyanla Alesandria, 7, and a baby on the way.

... Continued from Page 1

Four chances to learn to guard against fraud

wrote one participant on the evaluation form. "What a wonderful workshop available to so many."

Four Senior Scam Jams are planned in 2008:

- **[Northern Kentucky](#)**
Tuesday, March 18
Receptions South in Erlanger
- **[Lexington](#)**
Wednesday, April 23
Fayette County Cooperative Extension Education Center
- **[Murray](#)**
Wednesday, May 28
Curris Center at Murray State University
- **[Bowling Green](#)**
Wednesday, June 18
Carroll Knicely Conference Center

Each event will take place from 9 a.m. to 2 p.m. and includes lunch. All events are free, but registration is required by calling 877-926-8300. More information and the promotional fliers can be found online at <http://www.kfi.ky.gov/consumerinformation/cwsi.htm>.

The techniques scam artists use to sell inappropriate investments are typical of many types of fraudulent activities. That's why Kentucky's Campaign for Wise and Safe Investing has included partners such as the Attorney General's Office, the Better Business Bureau and the United States Postal Inspection Service to help provide information on avoiding fraud and protecting consumer finances.

The Campaign for Wise and Safe Investing is a national educational and awareness campaign that strives to protect Americans against investment fraud. The national campaign was formed by the AARP Foundation and the Investor Protection Trust (IPT).

The Campaign for Wise and Safe Investing™

In Brief... Two OFI employees recognized with award

OFI's Brian Raley and Teresa Sanders were among 44 state employees recognized at the 28th Employee Suggestion System (ESS) Awards Ceremony on Feb. 19 for finding innovative ways to improve state government operations.

Brian and Teresa suggested that

T-1 lines, located at race tracks throughout the state, be turned off when licensing offices are closed. They also suggested turning off a line at Ellis Park Race Track and installing a satellite dish instead.

Brian is OFI's technology manager. Teresa worked for the Kentucky Horse Racing Authority at the time, but now manages OFI's administrative services.

Moving ahead

Mortgage licensing is online

Kentucky and six other state agencies were the first to join the Nationwide Mortgage Licensing System (NMLS) in January. NMLS is just one part of a multi-faceted plan to improve regulation and bring greater uniformity across state lines in mortgage supervision.

To date, approximately 472 mortgage individuals have transitioned or submitted applications for Kentucky through NMLS. More than 212 existing mortgage entities have transitioned to NMLS.

NMLS is a secure, Web-based system that will allow state licensees, companies, branches and loan officers to apply for, amend, update or renew licenses online in Kentucky as well as in other participating states.

Each licensed company will have a single record in NMLS, regardless of the number of licenses it holds or the number of states in which it operates. Each licensed company will have access to its record in the system through a secure Web site, allowing it to conveniently view license information, apply for new licenses, amend existing licenses and renew or surrender licenses throughout the year. OFI will retain its regulatory authority to approve, deny, suspend or revoke licenses. NMLS is only responsible for processing license applications or renewals.

All mortgage individuals and mortgage entities are required to transition to NMLS by June 20. Additional information and how to set up an NMLS account can be found on OFI's Web site at www.kfi.ky.gov/industryinformation/nmls.htm.



Penalties, testing covered in legislation

The bill establishes testing requirements for all individuals originating mortgage loans who must register with OFI. It also adds additional consumer-friendly limitations and provisions for high-cost loans, such as prohibiting interest-only high-cost loans.

HB 552 also strengthens OFI's regulatory and enforcement powers by creating the Mortgage Fraud

Act, which will provide harsher penalties and fines for mortgage fraud and will make it easier to prosecute. This goes hand in hand with establishing a Mortgage Prosecution Fund, with money coming from the collection of fines and penalties.

The bill also adds a new section to the statute making it unlawful to improperly influence a real estate appraisal, and it allows OFI to recover fines and fees on a surety bond filed by a licensee.

In Brief...

OFI works to improve its Web resources

OFI's Web site, www.kfi.ky.gov, has a new look and easier navigation thanks to a redesign and relocation to a new server.

Now the industry can quickly find what it needs on the new "how to" pages within the Industry Information section. Instructions for licensing and more are separated by industry type and spelled out step-by-step with document links.

The Consumer Information section now contains enhanced resources such as downloadable brochures, extensive financial links and information on free financial literacy materials available through OFI.

Please note that while the home page address is unchanged, many of the inside page addresses have changed. OFI welcomes suggestions for improvement at kfi@ky.gov.

Federal pandemic guidance is available

The Federal Financial Institutions Examination Council issued a guidance on pandemic planning on Dec. 12. The guidance is for use by financial institutions in identifying continuity planning to minimize the potential effects of a pandemic. It can be viewed at: www.ffiec.gov/press/pandemicguidance.pdf.

Agencies issue rules on ID theft red flags

By the end of next year, all U.S. financial institutions will be required to have implemented an Identity Theft Prevention Program. Six federal agencies issued the "Final Rules on Identity Theft Red Flags and Notices of Address Discrepancy" in late 2007. The final rules implement sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003. To learn more, visit www.fdic.gov/news/board/07Oct16nine.pdf.

In Brief...

Training focuses on writing, investigations

OFI Training Coordinator Susan Gardner conducted a *Writing Skills Workshop* Nov. 13-16 for candidates for certification and for any new examiners who wanted to take the class.

"I thought it went well," she said.

"For the most part the evaluations were positive. All participants said they would recommend the class."

Some comments were "good refresher course," "will help make my report writing more effective" and "learned more than in federal classes."

In other training, the OFI Security

ties Division sponsored an *investigation seminar* on Feb. 11. Sixteen OFI employees attended, including securities and mortgage examiners, attorneys, and management staff. Norman K. Williams, former agent-in-charge of the Lexington IRS office, was the guest speaker.

OFI Contact Information

Main Office:
1025 Capital
Center Drive,
Suite 200
Frankfort, KY
40601
502-573-3390
800-223-2579
Executive
Office Fax:
502-573-8787

Eddyville
Field Office:
500 U.S. 62 East
Eddyville, KY
42038
270-388-4804
Fax:
270-388-7742

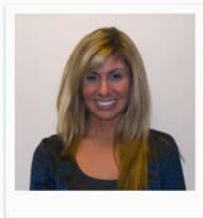
Bowling Green
Field Office:
400 East Main
Bowling Green, KY
42101
270-746-7047
Fax:
270-746-7049

Louisville
Field Office:
9112 Leesgate Rd.
Louisville, KY
40222
502-429-3290
Fax:
502-429-3295

Lexington
Field Office:
Spindletop
Administration
Building
2624 Research
Park Drive
Lexington, KY
40511
859-246-2740
Fax:
859-246-2743

Meet the new OFI staff members

Lindy Robinson joined OFI on Feb. 4 as executive secretary. She previously worked in communications and public affairs in the Governor's Press Office and the Transportation Cabinet. Prior to working in state government, Lindy was a lobbyist for Morgan Dixon. She has a bachelor's degree in public relations from Eastern Kentucky University. She lives in Lexington now, but originally hails from Cincinnati.



Teresa Sanders started work at OFI on Feb. 18 as the Administrative Branch manager. She spent four years working with budgets, personnel and training as an internal policy analyst for the Kentucky Horse Racing Authority. Before that she worked with grants in the Division of Water. Teresa has a bachelor's degree in accounting from Kentucky State University and lives in Lexington.



Three join OFI board

OFI would like to welcome Charles Beach, Kevin Walsh and Katherine Reese Capps as members of the Financial Institutions Board. They were appointed in December.

Beach and Reese Capps will both be representing the banking industry and Walsh will represent the securities industry. Each will serve a four-year term ending Oct. 10, 2011.

The board consists of 12 representatives from Kentucky's financial industry and the public at large. The board is responsible for submitting, at the governor's request, a list of candidates qualified to serve as executive director. Also, the board can recommend salary structure for the office staff. They receive and comment on reports relating to the office and its activities.



Gov. Steve Beshear signs the executive order appointing Robert Vance as secretary of the Environmental and Public Protection Cabinet.

Photo by Creative Services.

EPPC welcomes Vance

Secretary Robert D. Vance was appointed by Gov. Steven L. Beshear in December. He brings nearly 40 years of managerial experience and a record of civic involvement to his new post.

From Maysville, Vance spent most of his career in banking. He has been chairman or a senior officer of banks in Maysville, Warsaw, Dawson Springs and Evansville, Indiana. He also has worked as an agricultural lender for Farm Credit Services, a trust examiner for the Office of the Comptroller of the Currency and a stockbroker for Bache & Co.

Vance is a native of Grant County and earned business and law degrees at the University of Kentucky. He also is a graduate of the Stonier Graduate School of Banking at Rutgers University and the Executive Banking Institute at the University of Louisville.

"Of Interest in Kentucky" is published quarterly by the Kentucky Office of Financial Institutions to provide useful information to the institutions that it regulates. This issue was produced by Kelly May with the assistance of Lindy Robinson. Reader comments and suggestions are welcome and should be addressed to Kelly at

kelly.may@ky.gov, 502-573-3390, ext. 252, or 1025 Capital Center Drive, Suite 200, Frankfort, KY 40601.

"Of Interest in Kentucky" is available free via e-mail. To subscribe or unsubscribe, send an e-mail to kelly.may@ky.gov. The newsletter also is available at www.kfi.ky.gov/industryinformation/newsletter.htm.